

Dear Sirs,

RE:- Code of conduct review.

1. Independence

The Trans-Tasman IP Attorneys Board proposes to amend the code of conduct to provide that incorporated attorney practices that are commonly owned practices are not to be treated (a) as other than separate practices, and (b) as business associates of each other for the purposes of the conflict of interest provisions, so long as they are operated independently.

We believe the Board should reverse the onus of proof, and hold that they are treated as a single practice unless they demonstrate independent operation.

One does not purchase similar businesses for the purpose of operating them independently. Similar businesses are bought in order to achieve operational efficiencies by consolidation of services. This is self-evident and has been made clear in public statements by IPH.

When IPH purchased Pizeys the ASX announcement reported:-

“We expect by joining the IPH group, Pizeys will be able to build on their momentum by making the wider range of IP services that the IPH group offers available to their clients.”

<http://www.iphltd.com.au/wp-content/uploads/2015/09/20150918-IPH-acquires-Pizeys.pdf>

When IPH purchased FAK the ASX announcement reported:-

Mr Griffith went onto say, “integrating FAK with IPH’s existing networks in the Asia Pacific region is expected to derive increased benefits for both businesses, while in Australia FAK will continue to service its existing client base operating under its own brand.”

<http://www.iphltd.com.au/wp-content/uploads/2015/08/20150528-Acquisition-of-FAK.pdf>

In the 2016 annual report it was reported by David Griffith, chief executive officer that

“We remain focused on maximising profitability through operational integration and business process improvements across the Group.”

<http://www.iphltd.com.au/wp-content/uploads/2016/10/IPH-Annual-Report-2016.pdf>

2. Core obligations 11(b)

The proposal to consider commonly owned practices as being independent ignores the core obligation of a registered attorney to act in the interests of the client.

A potential, unresolved conflict, whether it is real or commercial, is clearly not in the client’s interest. Attorneys understand that a client may relocate their work if their business acts for a competitor. It is up to the client to make that decision and not the attorney to make that decision for them.

An attorney is acting in self-interest and not the clients interest if they fail to clearly inform the client that their practice (including associated practices) have been acting for a commercial competitor at the earliest opportunity. The clients need to provide written informed consent and an attorney’s inaction ignores the obligations of professional conduct.

For example, the US law firm Dentons was found to have committed an ethical violation by failing to obtain written informed consent when Dentons Canada acted for Gap against RevoLaze represented by Dentons, Cleveland. The two Dentons businesses were said to operate under a “Swiss Verein” structure, and were financially and operationally separate. Despite this, Dentons committed an ethical violation since they did not inform the clients or give them the choice. This decision is not unusual for US courts have consistently rejected similar arguments in the past based on ‘operationally independence’.

3. Informed written consent

The protection of intellectual property is largely an international business. According to the Australian Intellectual Property Report 2017 published by IP Australia, the largest filers of patent applications into Australia are from USA, Japan, Germany, UK and Switzerland. We expect the same applies to New Zealand. The foreign filers of patent applications would expect that the standards used in Australia and New Zealand would be similar to their local standards.

The UK code of conduct 2015 is available at <http://ipreg.org.uk/pro/rules-and-regulations/code-of-conduct/> and requires the below (emphasis added):

7.4 Confidentiality safeguards within firms or between branches may be sufficient to “cure” conflict, provided informed written consent is obtained from all parties and suitable arrangements to ensure the confidentiality of information applying to each client are in place. Safeguards – within firms or between branches – cannot, however, “cure” conflicts to enable the same regulated person to act on behalf of opposing parties in a contentious matter.

The US code of conduct is available at the address below and has numerous categories of conflict, all of which “informed consent, confirmed in writing”, including clause 11.110 which imputes a conflict across a firm.

<https://www.federalregister.gov/documents/2013/04/03/2013-07382/changes-to-representation-of-others-before-the-united-states-patent-and-trademark-office#sectno-reference-11.110>

Clause 11.705 is noteworthy insofar as it precludes the use of firm name and letterheads which is misleading by omission.

The requirement should not be limited to contentious situation, referred to as “group double employment” in the review. There is no such limitation in the UK or USA. Independent operation of firms may provide confidentiality but the UK codes requires informed written consent from the clients “within firms”. The UK code does not distinguish between operationally independent firms or related firms. It requires informed written consent from clients within each firm.

We are aware of UK attorney firms who on becoming aware of the association between IPH owned attorney firms, moved the work citing the their obligations under the UK code of conduct. We are aware of US attorney practices taking the same action.

Other matters:

4. Common naming

If multiple attorney practices are ultimately controlled or owned by a single company then all those practices should trade under the name of the ultimate controlling company. This is consistent with the Boards stated belief that there should be a very high degree of transparency of the ownership status of attorney practices.

If a business is required to make the association clear in its advertising then there will be uncertainty as to what is sufficiently clear. If a business acts in an unclear manner a complaint needs to be filed and there is a delay in acting on the complaint. One can cut across those issues by requiring all commonly owned practices to use the same business name.

The UK profession had a similar issue in 1980's when the attorney firm Marks & Clerk purchased numerous attorney firms around the UK. Those firms continued to trade under their previous names and resulting in complaints and confusion. There were numerous instances of clients intentionally relocating their work away from Marks & Clerk to a new firm, only to later discover that the new firm was also affiliated with Marks & Clerk. The then UK code of conduct was revised to specifically address this practice and the numerous firms owned by Marks & Clerk had to identify themselves as Marks & Clerk.

This requirement is consistent with the core obligations at clause 11 of the Australian Code of Conduct. It addresses the issue of misleading and deceptive conduct as well as in the public interest and the interests of the profession as a whole. It could be reasonably argued that patent attorneys as trusted advisors should be held to a higher standard of conduct and should not engage in conduct which could possibly mislead or deceive.

Allegations of misleading and deceptive conduct were raised by the Australian Competition and Consumer Commission (ACCC) against other types of businesses which operate multiple businesses under different names. For example, in 2011 in relation to funeral parlors, ACCC accepted the concerns that most businesses did not realise that InvoCare's brands were part of the same listed business and ordered InvoCare to disclose which brands it owned in all advertising and marketing in Brisbane. It seems unusual to hold attorney firms to a lower standard than funeral parlors.

It is not a hypothetical issue, the writer is well aware of clients being unaware of the business associations between attorney firms. These associations are not promoted on the advertised the websites. For example, the websites www.griffithhack.com and www.watermark.com.au only indicates that the business is associated with Xenith IP Limited and not the connection between Xenith IP and other Australian attorney firms.

We add that the connection to Xenith IP is not made abundantly clear, it appears at the bottom of the website in the smallest font on the page and in a location typically associated with a statement regarding copyright. It is not visible if the user does not scroll down their page.

Another example involves Halliburton, who used to direct its patent filings to Spruson & Ferguson (SF), Pizeys and Callinans. Halliburton relocated all of its work from SF to Pizeys after becoming aware that SF was working for a commercial competitor. When IPH bought Pizeys, Halliburton did not relocate its work. When IPH bought Fisher Adams Kelly, Halliburton did not move its work. After Callinans was bought by FAK, representatives of FAKC visited Halliburton and explained in detail the IPH business structure including the connection with SF. Shortly after that visit Halliburton terminated their long-standing relationships with Callinans and Pizeys and relocated all their work to other firms. Until that visit the relevant representatives within Halliburton had been unaware of the association between Pizeys and SF.

Although this change would impact on the listed attorney firms, it would also prevent unlisted attorney firms from operating multiple businesses under different names.

5. Earn outs

When an attorney sells a practice into a listed firm, they normally agree to earn out provisions. In the announcements to the ASX, IPH list various earn out conditions for the purchased attorney firms. These provisions financially reward the attorney if they can persuade their clients to stay on with the new owner. As a result, attorneys may turn a blind eye to potential conflicts as well as any other issues with the new practice in return for receiving substantial financial benefits. It is difficult to see how an attorney can comply with their obligations under clause 15 (4) if they agree to an earn out arrangement.

6. Client choice

We are aware of several clients who believe that their terms of engagement with an Australian attorney firm preclude them from moving their work to another attorney firm. The terms of engage include punitive fees if they elect to follow the attorney to another firm. Regulation 5.2 (c) of the UK code of conduct would strike down a UK attorney if they tried the same and we suggest it is appropriate to include a similar clause in the Australian code of conduct.

5.2 A regulated person should not do anything that might compromise:

...

c) the freedom of clients to instruct any person or firm to carry out their work or to change their representation.